

Message Text

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PAGE 01 BONN 06019 01 OF 03 051752Z
ACTION EUR-12

INFO OCT-01 EA-09 ISO-00 AID-05 CIAE-00 COME-00 EB-08
FRB-01 INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04
CEA-01 L-03 H-02 PRS-01 PA-02 /109 W
-----051810Z 070486 /46

R 051741Z APR 77
FM AMEMBASSY BONN
TO SECSTATE WASHDC 7194
DEPARTMENT TREASURY
INFO AMEMBASSY BERN
AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO
USMISSION EC BRUSSELS
USMISSION OECD PARIS
AMCONSUL FRANKFURT

UNCLAS SECTION 01 OF 03 BONN 06019

DEPARTMENT PASS FEDERAL RESERVE

E.O. 11652: N/A
TAGS: EFIN, GW
SUBJECT: FINANCIAL DEVELOPMENTS (WEEK ENDING APRIL 4)

REF.: BONN 5832

1. FOREIGN EXCHANGE MARKET:
IN THE PAST WEEK THE DOLLAR TRADED WITHIN A RELATIVELY
NARROW BAND . THE
REALIGNMENT WITHIN THE SNAKE BASED ON MONDAY'S AND
TUESDAY'S TRADING APPEARS TO HAVE HAD LITTLE IF ANY
IMPACT ON THE DOLLAR/DEUTSCHEMARK RATE. DURING THE
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PAGE 02 BONN 06019 01 OF 03 051752Z

REPORTING PERIOD, FRANKFURT SPOT AND FORWARD DOLLAR
RATES WERE QUOTED AS FOLLOWS:

FORWARD DOLLARS				
SPOT DOLLARS (IN PCT. PER ANNUM)				
OPENING	FIXING	CLOSING	ONE-MONTH	THREE-MONTH

MAR 28	2.3900	2.3898	2.3880	-0.7	-0.7
29	2.3865	2.3859	2.3890	-0.9	-0.8
30	2.3925	2.3916	2.3912	-0.9	-0.8
31	2.3900	2.3887	2.3910	-0.7	-0.7
APR 1	2.3910	2.3897	2.3927	-0.7	-0.7
4	2.3850	2.3860	2.3895	-1.2	-0.9
5	2.3887	2.3890	N.A.	N.A.	N.A.

2. MONEY MARKET:

DURING THE PAST WEEK, FRANKFURT INTERBANK MONEY RATES WERE VIRTUALLY UNCHANGED FROM THE PREVIOUS WEEK'S QUOTATIONS. RATES FOR CALL, ONE MONTH AND THREE MONTH FUNDS WERE AS FOLLOWS:

CALL MONEY ONE-MONTH THREE-MONTH

MAR 28	4.5-4.6	4.55	4.70
29	4.5-4.6	4.55	4.70
30	4.5	4.55	4.70
31	4.4-4.6	4.55	4.70
APR 1	4.4-4.6	4.55	4.70
4	4.4-4.5	4.55	4.65

3. BOND MARKET:

ON THE MARKET FOR DOMESTIC BONDS PRICE INCREASES CONTINUED. ACCORDING TO THE PRESS, AVERAGE CURRENT YIELDS ON DOMESTIC BONDS BROKEN DOWN BY REMAINING MATURITY ARE AS FOLLOWS:

UNCLASSIFIED

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PAGE 03 BONN 06019 01 OF 03 051752Z

UNCLASSIFIED

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PAGE 01 BONN 06019 02 OF 03 051800Z

ACTION EUR-12

INFO OCT-01 EA-09 ISO-00 SP-02 USIA-15 AID-05 EB-08

NSC-05 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00

FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06 LAB-04

SIL-01 L-03 H-02 PA-02 PRS-01 /109 W

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R 051741Z APR 77
FM AMEMBASSY BONN
TO SECSTATE WASHDC 7195
DEPARTMENT TREASURY
INFO AMEMBASSY BERN
AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO
USMISSION EC BRUSSELS
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UNCLAS SECTION 02 OF 03 BONN 06019

REMAINING MATURITY
(YEARS) 1 3 5 7 9 10

YIELD TO MATURITY
APRIL 1 4.75 5.80 6.40 6.65 6.85 6.90
MARCH 25 4.90 5.95 6.50 6.70 6.90 7.00

ON APRIL 4 THE FEDERAL GOVERNMENT OFFERED A DM 850
MILLION LOAN. AS A RESULT OF CONTINUING FAVORABLE BOND
MARKET CONDITIONS THE LOAN CARRIED A COUPON RATE OF
6 3/4 PERCENT AS COMPARED WITH A 7 PERCENT COUPON RATE
UNCLASSIFIED

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PAGE 02 BONN 06019 02 OF 03 051800Z

ON OTHER RECENT DOMESTIC BOND ISSUES. THE FEDERAL LOAN
IS THE FIRST LOAN SINCE 1969 OFFERED AT A COUPON BELOW
7 PERCENT. OTHER LOAN CONDITIONS INCLUDED AN ISSUE
PRICE OF 99 1/2 AND A MATURITY OF 10 YEARS RESULTING IN
A YIELD TO MATURITY OF 6.82 PERCENT.

THE FEDERAL GOVERNMENT HAS ALSO REDUCED INTEREST RATES
ON FEDERAL SAVINGS BONDS. THE NEW YIELDS OF THE BONDS
ARE 6.25 PERCENT (6 YEAR MATURITY, ANNUAL INTEREST
PAYMENTS), AND 6.60 PERCENT (MATURITY 7 YEARS, ACCU-
MULATED INTEREST). PREVIOUS YIELDS WERE 6.71 PERCENT
AND 7.06 PERCENT, RESPECTIVELY. MARKET OBSERVERS
EXPECT THAT IN REACTION TO THE GOVERNMENT'S INTEREST
RATE REDUCTIONS, BANKS WILL ALSO REDUCE INTEREST RATES
ON SAVINGS DEPOSITS.

THE SPANISH RED NACIONAL DE LOS FERROCARRILES

ESPANOLES (RENFE) IS CURRENTLY OFFERING A DM 100 MILLION LOAN (COUPON 8 PERCENT, ISSUE PRICE 100, MATURITY 7 YEARS). THE NORWEGIAN FIRM ELF NORGE IS PRIVATELY PLACING DM 100 MILLION OF BONDS. THE MATURITY IS ONLY 3 YEARS, THE COUPON 5 3/4 PERCENT AND THE ISSUE PRICE 99 3/4. THE KINGDOM OF SWEDEN REPORTEDLY PLANS TO OFFER A DM 250 MILLION ISSUE PROBABLY CARRYING A COUPON OF 6 1/2 PERCENT, A MAXIMUM MATURITY OF 7 YEARS AND AN ISSUE PRICE OF ABOUT PAR.

4. BUNDESBANK FOREIGN POSITION:

IN THE PERIOD MARCH 16 - 23 THE BUNDESBANK'S NET FOREIGN POSITION INCREASED BY DM 0.4 BILLION TO DM 86.4 BILLION. FOREIGN EXCHANGE HOLDINGS ROSE BY DM 527 MILLION WHILE CLAIMS AGAINST THE U.S. RESULTING FROM OFFSET AGREEMENTS DECLINED BY DM 376 MILLION. GERMANY'S IMF GOLD TRANCHE POSITION FELL BY DM 25 MILLION AND SDR HOLDINGS BY DM 17 MILLION. FOREIGN LIABILITIES FELL BY ABOUT DM 290 MILLION.

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PAGE 03 BONN 06019 02 OF 03 051800Z

5. BANK LIQUIDITY:

IN THE SAME PERIOD BANK LIQUIDITY DECLINED SUBSTANTIALLY BY DM 4.8 BILLION. THE BASIC FACTOR REDUCING LIQUIDITY WERE PAYMENTS FOR THE MAJOR MID-MARCH TAX DATE. AS A RESULT, BUNDESBANK ASSETS OF PUBLIC AUTHORITIES INCREASED BY DM 10.9 BILLION. ASSETS OF THE FEDERAL GOVERNMENT ALONE ROSE BY DM 7.0 BILLION TO DM 8.4 BILLION AND ASSETS OF STATE GOVERNMENTS BY DM 4.1 BILLION TO DM 9.3 BILLION. OTHER FACTORS REDUCED LIQUIDITY, NET, BY DM 1.4 BILLION. LIQUIDITY WAS INCREASED BY THE ABOVE-MENTIONED INCREASE IN THE BUNDESBANK'S FOREIGN POSITION, THE USUAL DECLINE OF CURRENCY IN CIRCULATION IN THE THIRD WEEK OF A MONTH (DM 2.2 BILLION) AND DM 4.9 BILLION DECLINE IN BANKS' HOLDINGS OF RESERVES AT THE BUNDESBANK. (IN THE PERIOD MARCH 1-23 THE BANKS' RESERVE HOLDINGS AMOUNTED ON AVERAGE PER DAY TO DM 47.8 BILLION AS COMPARED WITH (PRELIMINARY) MARCH RESERVE REQUIREMENTS OF ABOUT DM 47 BILLION.) THE BANKS FINANCED THE LIQUIDITY LOSS BY INCREASING LOMBARD BORROWINGS BY DM 3.5 BILLION TO DM 4.4 BILLION, AND REDISCOUNT BORROWINGS BY DM 0.3 BILLION TO DM 17.6 BILLION. THEY FURTHER SOLD DM 1.0 BILLION OF BILLS TO THE BUNDESBANK UNDER THE SPECIAL REDISCOUNT FACILITY MADE AVAILABLE BY THE BUNDESBANK ON MARCH 10, RAISING SUCH SALES TO DM 3.4 BILLION. THUS, ON MARCH 23 BUNDESBANK LENDINGS TO DOMESTIC BANKS TOTALLED DM 25.3 BILLION.

6. FINANCE MINISTER SUGGESTS FORTHCOMING INCLUSION OF
DM 500 MILLION TRANCHE OF PUBLIC INVESTMENT PROGRAM IN
1977 BUDGET:

IN A STATEMENT TO THE BUNDESRAT FINANCE MINISTER APEL
HAS INDICATED THAT DM 500 MILLION OF THE DM 16 BILLION
MEDIUM-TERM PUBLIC INVESTMENT PROGRAM (SEE BONN 5157)
WILL BE INCORPORATED IN THE 1977 DRAFT BUDGET. THIS,
UNCLASSIFIED

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PAGE 04 BONN 06019 02 OF 03 051800Z

UNCLASSIFIED

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PAGE 01 BONN 06019 03 OF 03 051756Z

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CEA-01 L-03 H-02 PRS-01 PA-02 /109 W

-----051810Z 070524 /46

R 051741Z APR 77

FM AMEMBASSY BONN

TO SECSTATE WASHDC 7196

DEPARTMENT TREASURY

INFO AMEMBASSY BERN

AMEMBASSY BRUSSELS

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UNCLAS SECTION 03 OF 03 BONN 06019

IN HIS VIEW, MAY BE POSSIBLE WITHOUT RAISING THE OVER-
ALL EXPENDITURE LEVEL PROPOSED, AS RECENT DEVELOPMENTS

WOULD SEEM TO PERMIT COMPENSATORY CUTS OF BUDGETED CONSUMPTION-TYPE OUTLAYS. MEANWHILE, THE FEDERATION OF GERMAN LABOR UNIONS HAS REITERATED EARLIER DEMANDS FOR INCREASING THE PROGRAM TO DM 20 BILLION OVER 4 YEARS.

7. ECONOMIC INDICATORS PUBLISHED THIS WEEK:
NON-SEASONALLY ADJUSTED UNEMPLOYMENT IN MARCH DROPPED BY 130,000 TO 1.084 MILLION; THE UNEMPLOYMENT RATE DECLINED FROM 5.3 PERCENT IN FEBRUARY TO 4.8 PERCENT IN MARCH. IN MARCH LAST YEAR UNEMPLOYMENT DROPPED BY UNCLASSIFIED

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PAGE 02 BONN 06019 03 OF 03 051756Z

157,000 TO 1.190 MILLION AND THE UNEMPLOYMENT RATE DECLINED BY 0.7 PERCENTAGE POINTS TO 5.2 PERCENT. (SEASONALLY ADJUSTED UNEMPLOYMENT FIGURES FOR MARCH 1977 WILL BE REPORTED UPON RECEIPT.)

THE NUMBER OF NEWLY-LICENSED PASSENGER CARS (NON-SEASONALLY ADJUSTED) INCREASED FROM 181,483 IN JANUARY TO 208,641 IN FEBRUARY, DUE LARGELY TO SEASONAL INFLUENCES; THE RATE OF INCREASE OVER COMPARABLE 1976 LEVELS, WHICH CAME TO 13.2 PERCENT IN JANUARY DROPPED TO 7.2 PERCENT IN FEBRUARY. THE LATEST BUSINESS SURVEY DATA OF THE IFO ECONOMIC RESEARCH INSTITUTE (COVERING FEBRUARY) WERE REPORTED IN BONN 5832.
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